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RUEHQH/AMEMBASSY QUITO 2219
RUEHSG/AMEMBASSY SANTIAGO 3610
RUEHAO/AMCONSUL CURACAO 0878
RUEHGL/AMCONSUL GUAYAQUIL 0527
RUEATRS/DEPT OF TREASURY
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TREASURY FOR NGRANT
COMMERCE FOR 4331/MAC/WH/MCAMERON

E.O. 12958: N/A
TAGS: [ECON](#) [EAGR](#) [PGOV](#) [VE](#)
SUBJECT: MERCAL: THE BRV'S MOST POPULAR MISSION

REF: A. 2005 CARACAS 578

[¶](#)B. CARACAS 444

This message is sensitive but unclassified, please treat accordingly.

Summary

[¶](#)11. (U) Since its inception in 2003, the government-owned and subsidized food chain, Mercal, has grown exponentially. It now holds nearly half of the market share for domestic food. At a 92 percent public approval rate, it ranks as the most popular BRV mission, even penetrating into the upper-middle classes. CASA, Mercal's purchasing arm, enjoys significant competitive advantages over commercial counterparts, such as tax and customs duties exemptions. To account for rise in demand, the Ministry of Food (MINAL), which administers Mercal, has plans to expand the network and support agricultural investments to supply the stores. Mercal continues to suffer from some shortages and corruption, but overall the program appears sustainable, given the social importance and popularity of the stores, a continued favorable price outlook for oil, and the BRV's focus on food security. President Chavez has openly embraced Cuban consultation on the project, and has touted Mercal as one of his main successes in delivering the "revolution" to the people. End summary.

47 PERCENT MARKET SHARE AND GROWING

[¶](#)12. (U) Mercal was born after the 2003 general strike, when the government sought to replace interrupted food supply chains. What started with a few convenience store outlets has now turned into a food distribution network with 47 percent of market share (by volume, 15-20 percent by sales) for food products (according to Datos Information Resource, a polling firm), reaching 15.2 million people (over 60% of the

population), with 7,600 direct employees, over 15,000 stores, and nationwide sales of 6,000 metric tons per day. CASA (Corporacion de Abastecimiento y Servicios Agricolas), Mercal's purchasing arm, is responsible for coordinating both imports and domestic procurements. According to Cavidea (the Venezuelan Industrial Food Chamber), in December 2005, CASA-brand products had 45 percent market share for rice, 28 percent for pasta, and 22 percent for flour.

¶3. (U) Mercal has a variety of stores: from large and medium "Supermercals" and "Mercal Type II," which carry CASA-brand items as well as other commercial brand-name products, to "Mercal Type I" carrying exclusively CASA items, to "Mercalitos," corner stores operating under a Mercal "franchise" and selling both CASA and non-CASA products. Mercalitos, which are generally corner stores with a Mercal sign in front, make up 90 percent of the network's points of sale in Venezuela.

¶4. (SBU) Mercal operates as a not-for-profit organization (profits are about eight percent, according to Arthur D. Little, a consulting firm that has studied Mercal since its inception and advises clients on doing business with Mercal-CASA). Since 2005, the Mercal-CASA program has been administered and financed by the Ministry of Food (MINAL), which allocated USD 166 million to the network in 2005. The program received USD 114 million in 2004, when it was under the Ministry of Agriculture. In 2005, the Mercal-CASA operation represented 55 percent of MINAL's annual budget, notwithstanding any additional credits. Mercal-CASA's operating budget figures are not publicly available.

¶5. (U) According to Datanalysis, a local polling firm, 92 CARACAS 00001897 002 OF 003

percent of Mercal users are satisfied with the program. Demand for food products has increased eight percent in the first 2006 trimester alone, largely in the low-income D and E classes (which make up approximately 79 percent of Venezuelan households). Mercal has even tapped into the A, B and C classes, with 37 percent of respondents in those classes admitting to shopping there. Reportedly, Mercal employees have on occasion denied admittance to "escualidos" (the pejorative nickname for upper-class Venezuelans). However, when EconOff and other embassy employees visited three Mercal stores in Caracas (presumably looking like upper-middle class Venezuelans), there was no problem entering the premises or purchasing products. Though the stores were not equipped with credit card readers, the cashiers didn't ask for personal information (such as name and identification number) for the cash transaction, which is customary in privately-owned grocery stores. Due to increased demand, Mercal has announced expansion into cold storage (already present in some stores), acquisition of vehicles for their transportation fleet, expansion of existing stores and improvements of service centers.

ECONOMIC IMPACT OF MERCAL

¶6. (SBU) Mercal, on average, offers a 32 percent discount on goods that are price-regulated (an extensive list of basic staples for which the BRV has imposed a sale price ceiling). Mercal's prices for non-regulated or non-CASA goods are on par with market value. CASA doesn't pay customs duties on imported products, which in 2005 made up 37 percent of their 200-product basket (down from 70 percent in 2004). According to Arthur D. Little, Mercal has made a concerted effort to favor domestic producers. CASA provides packaging materials to suppliers (see Para 8), which allows them to cut costs on packaging and marketing and therefore offer a discounted wholesale price. CASA is exempt from paying taxes.

¶7. (SBU) At first glance, it seems like Mercal would be eating into the market share of large grocery store chains.

However, according to Arthur D. Little, from 2005 to 2006, large chains have increased their market share from 35 to 37 percent. Other providers, such as warehouse-style stores (i.e. Sam's Club equivalent), and corner shops have been hurt the most, shrinking from 25 to 17 percent market share. In general, Mercal has driven down price margins -- traditionally very high in Venezuela at 30-35 percent -- for supermarket chains, and many are attempting to become more competitive by varying product choices and improving facilities.

¶8. (U) MINAL has also announced continuation and expansion of a series of agricultural investment projects destined to supply the Mercal network. Among these is the now infamous Ezequiel Zamora sugar complex (CAEZ), which became embroiled in a corruption scandal in March 2006 after an inquiry revealed that the USD 2.4 million destined for the project had gone into the pockets of a few military officers and reportedly of Antonio Albarran, the ex-minister of Agriculture. Among this year's new projects are the proposed re-activation of coffee plants, construction of pasta, corn, meat and rice processing plants, chicken farms, slaughterhouses, cooking oil production facilities, packaging factories, and another sugar mill.

POLITICS: PROPAGANDA AND THE CUBANS

¶9. (U) In Mercal, CASA-brand food comes conveniently packaged with political propaganda. Most basic staples have a comic book-style cartoon depicting, for example, a devil dressed in a suit with a dollar-sign tie (representing the profiteering

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private sector), accompanied by an excerpt from the constitution or a political statement. (Note: for photos of products, please contact EconOff at Rioja-ScottIE@state.gov. End Note). Only CASA products carry this propaganda.

¶10. (U) The involvement of Cubans in the administration of Mercal is no secret. In an April Alo Presidente speech to celebrate Mercal's three-year anniversary, Chavez publicly introduced Barbarita Castrillo, a Cuban "minister" who serves as a BRV consultant. Chavez said: "You have no idea how much these people helped us, and continue to help us." (Note: Ostensibly through ALIMPORT, the Cuban Food Import Agency. End Note). That same week, Chavez proposed that Mercal expand to Nicaragua, and various National Assembly deputies have picked up on the suggestion and have publicly supported the idea of taking BRV missions overseas.

LINGERING ISSUES: SHORTAGES, CORRUPTION

¶11. (U) Product scarcity is a common occurrence in Venezuela, and Mercal is not immune. The causes for shortages are varied, but mostly they occur due to price controls, which discourage production by leaving low (often negative) price margins. Erika Farias, the current Food Minister, stated that shortages are just a symptom of Mercal's popularity. (Comment: They are more likely a symptom of retrograde BRV pricing policies (Ref B). End Comment). During EconOff's visit to three Mercal stores, none had sugar or sardines.

¶12. (SBU) According to Arthur D. Little, there are over 101 open corruption cases regarding Mercal in the Venezuelan legal system. In the state of Tachira, Mercal employees were reportedly stealing merchandise to sell at a profit over the Colombian border. Reports abound of Mercal employees hoarding products affected by shortages to later sell them to preferred customers or on the black market. The food network has a very high employee turnover rate, which may be a contributing factor. These incidents prompted MINAL to

schedule a census of Mercal stores, to be carried out by Community Councils.

COMMENT

¶13. (U) Mercal is a high visibility project for the BRV, and has provided Chavez' voter base with a tangible benefit from the "revolution." Whether the expansion into the middle class translates into political support is difficult to gauge. Though the network is largely successful due to unfair competition (no taxes or customs duties), it has also provided a market outlet for many national producers. Mercal will be sustainable as long as oil revenue and poverty remain - the former to finance the subsidies, the latter to uphold demand. To Venezuelans, it will continue to be a place to buy basic staples at considerably cheaper prices, and the popularity of savings often supersedes a consumer's political leanings. End comment.

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